



# Betty T. Yee, Chairwoman State Board of Equalization



Serving the 8.5 million Californians of the First Equalization District, comprised of 21 counties along the northern and central California coast, including the entire San Francisco Bay Area.

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## Quarterly e-Newsletter

To learn more about services provided by the State Board of Equalization, please call my office or visit my website at:

[www.boe.ca.gov/members/yee](http://www.boe.ca.gov/members/yee)

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Welcome to the Winter 2009 edition of my e-newsletter.

As we approach the end of 2009, many would agree this year posed many challenges and much stress to Californians and their families. Although the year began with great promise and hope as we welcomed a new President into the White House and witnessed the enactment of the American Recovery and Reinvestment Act to provide sorely needed economic stimulus funds to states, 2009 most likely will be remembered in California as the year in which: the unemployment rate climbed to 12.5 percent in October; the number of homes in foreclosure remained high, especially in the communities of the Central Valley, the Inland Empire, and east of the San Francisco Bay; and small business bankruptcies rose by 81 percent for the 12 months ending in September compared to the prior 12-month period.

While these statistics are staggering, we must not forget the human faces and lives of those Californians who have lost their jobs, homes, and businesses, and the effects these losses have had on them, their families, and their communities. My office and the State Board of Equalization (BOE) generally saw a significant increase in the number of small businesses seeking assistance with meeting their State tax obligations. With inaccessible lines of credit and depressed consumer spending, many small businesses are finding it harder to pay their bills, including their State tax bills. With an interest and commitment to keep responsible businesses from shuttering, the BOE offered payment plans and other arrangements to help many businesses to get through this economic crunch.

In doing so, the BOE has had to do more with less resources, having sustained a significant reduction to the agency's budget. Canceling all of my outreach and education seminars, I spent 2009 traveling throughout the First Equalization District to inform and educate the public and small businesses about the BOE's tax assistance programs as well as the State's fiscal outlook and budget constraints. Visiting over 100 organizations and community groups in the First District, I also took this opportunity to introduce the web-based toolkits on my website ([www.boe.ca.gov/members/yee/index.htm](http://www.boe.ca.gov/members/yee/index.htm)), developed by my staff to become an integral part my constituent services program. These toolkits place a special emphasis on small businesses, non-profit organizations, and women, all affected particularly hard by the economic downturn.

I am cautiously optimistic about signs of improvement in the California economy at year's end, amidst the stabilization of the nation's economy: unemployment dropped to 12.3 percent, with job gains posting beginning in October; manufacturing activity increasing slightly; foreclosure activity falling, with Florida's foreclosure rate now surpassing California's; and sales of existing single family homes resuming. However, the economic outlook will continue to place stress on small businesses and on the ability of the State Budget to support public services in these times of great need by so many Californians.

I and my staff remain committed, now more than ever, to serving California taxpayers in the most efficient and effective manner possible. Happy New Year, and may 2010 be bright for you and your families.

Sincerely,

BETTY T. YEE  
Chairwoman

## STATE BUDGET UPDATE

Governor Schwarzenegger will be releasing his Proposed 2010-11 State Budget before January 10, 2010. With the state facing a shortfall of at least \$20 billion in the 2009-10 and 2010-11 fiscal years, the Governor's Proposed Budget will more than likely include further deep spending cuts. Chairwoman Yee observes, "The slower economic recovery in California has resulted in revenues not meeting projections. Combined with the reliance on one-time budget fixes such as the use of one-time federal stimulus funds and unworkable budget solutions such as the sale of the State Compensation Insurance Fund, California's budget deficit will continue for several years to come absent long-term corrective actions by the Legislature and the Governor."



According to the Legislative Analyst's Office, the State will end the 2009-10 fiscal year with a \$6.3 billion budget gap and a shortfall of \$14.4 billion for the 2010-11 fiscal year. To view the Governor's Proposed 2010-11 State Budget upon its release, visit the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov).

## SAVE YOUR RECEIPTS FROM ONLINE PURCHASES: USE TAX MAY BE OWED ON PURCHASES FROM OUT-OF-STATE RETAILERS



Reminding Californians that while online shopping is a convenient way to quickly take care of holiday gift needs, Chairwoman Yee announced, "Use tax may be owed on those purchases made online or from out-of-state retailers."

California use tax has existed since 1935. It was established to eliminate the price advantage out-of-state retailers would have over California businesses that collect and remit sales tax to the BOE. Use tax generally applies to sales made outside the state or online when the retailer does not apply sales tax. Sales tax applies to most in-state purchases. Online or catalog retailers are not required to collect sales tax unless they have a physical presence in California. The consumer is required to pay use tax when the out-of-state retailer does not collect sales tax.

Use tax can most easily be reported on a separate line on the state income tax return and paid when filing the return, which is due for most filers on April 15 of each year. A Consumer Use Tax Return can also be filed directly with the BOE. If the purchaser is a retailer with a seller's permit, the use tax should be reported on the regular sales and use tax return. The average California household owes \$47 per year in use tax, while the average annual business use tax obligation is \$166.

A new law requiring service industry businesses with more than \$100,000 in gross receipts to register with the BOE for paying use tax became effective for the 2009 calendar year, and those returns are due to the BOE by April 15, 2010. Use tax paid by the service industry is estimated to generate \$151 million in the 2009-10 fiscal year.

Chairwoman Yee notes, "About \$1.1 billion goes unpaid in use tax owed by both consumers and businesses. Paying use tax ensures revenues to fund vital public services such law enforcement, health care, transportation, and many others, as well as ensures online retailers do not have an unfair competitive advantage to retail establishments physically located in California."



## NEGATIVE INFLATION: FIRST-TIME PROPERTY TAX REDUCTIONS



Most California homeowners will see a slight decline in property tax bills, according to the BOE preliminary estimates of a negative inflation factor, or deflation, of 0.237 percent. The decline in taxes owed will be about \$2.60 per \$100,000 in assessed value. The preliminary estimate is based on US Bureau of Labor Statistics Consumer Price Index (CPI) figures released mid-November. The official inflation factor, the California Consumer Price Index (CCPI), is calculated by the California Department of Industrial Relations using the same price data.

This is the first time such a broad-scale reduction in property tax base-year values has occurred. Since the passage of Proposition 13, the inflation factor has never before been negative. Under Proposition 13, once such a base-year value is established, it must be adjusted in subsequent years by an inflation factor, but any increases resulting from these annual adjustments are capped at 2 percent per year.

The adjustment factor will be reflected in assessments made as of January 1, 2010. The base-year adjustments will be reflected on tax bills sent out in October 2010 and due by December 10, 2010 and April 10, 2011. Even with this base-year value reduction reflecting deflation, some property owners may not see a reduction in their properties' assessed values. For example, this would occur as if the assessed value has already been reduced due to recent market declines. Those property owners could actually see an increase in the annual assessed value and resulting tax bill. Proposition 13 requires the county assessor to use this higher current market value for the 2010 assessment, provided this value does not exceed the property's factored base-year value.

According to Chairwoman Yee, "While the minimally lower property tax bills will be welcomed by homeowners, this will result in less revenue to local governments and school districts for services, the extent of which is not yet known."



## REDUCTIONS IN PAYMENTS TO LOCAL GOVERNMENTS

On November 30<sup>th</sup>, the BOE notified local finance directors that declining state sales tax revenues have caused a reduction in expected local allocations for their November 2009 advances. In addition, 19 jurisdictions received notification they will be receiving no November advance.

Chairwoman Yee states, "The decline in taxable sales has continued with weak housing and vehicle sales. Californians are concerned about job security, and those consumers who have the ability to spend are choosing not to do so." Payments to the local taxing jurisdictions are based in part on prior taxable sales patterns that do not apply in the current economic climate. Similar letters were sent to 337 jurisdictions in August and 473 jurisdictions in May.

Payments to local governments for the third quarter of 2009 were reduced by 11.5 percent, based on an estimate provided by the Department of Finance. An analysis of actual cash receipts from the third quarter of 2009 showed an overall decline of 14.91 percent, taking into account the newly imposed 1 percent sales tax increase going directly to the state. To account for the further decline, an additional adjustment of -6 percent was applied to jurisdictions that saw a decline in revenues greater than 17.5 percent.

The BOE makes monthly allocations to 768 local jurisdictions based on a formula that includes historical allocations, growth factor adjustments to the base, transfers and audits, and actual cash receipts. Erosion in the expected cash receipts led to the downward monthly adjustments to the allocations for November 2009. The BOE anticipates similar adjustments will occur to the fourth quarter 2009 and first quarter 2010 advances as well.



## ONLINE RESOURCES: INNOVATIVE TAXPAYER SERVICES

**Online Appointment System:** Taxpayers statewide can now make appointments online for BOE field office visits. “We are committed to effectively assisting taxpayers and small business owners during these challenging economic times,” said Chairwoman Yee. “We are continuing to expand web-based, interactive taxpayer tools to help businesses and individuals meet their tax requirements as efficiently as possible.”



While BOE offers many online, mail-in, and telephone services, anyone who needs to visit a BOE office can use this appointment system. Appointments may be scheduled up to 30 days in advance.

Online appointments can be made for visits to the following BOE field offices: Bakersfield, Culver City, Fresno, Irvine, Norwalk, Oakland, Rancho Mirage, Redding, Riverside, Sacramento, Salinas, San Diego, San Francisco, San Jose, San Marcos, Santa Rosa, Suisun City, Van Nuys, Ventura, and West Covina. The local BOE offices are open Monday through Friday (except state holidays) from 8:00 AM. to 5:00 PM . Appointments are available for assistance in the following areas:

- Obtaining a Seller’s Permit
- Closing a Seller’s Permit
- Obtaining an Escrow Clearance
- Requesting a Use Tax Clearance—Nontaxable Vehicle and Vessel Transfers
- Reinstating a Revoked Seller’s Permit
- Obtaining a Cigarette and Tobacco License
- Completing / e-Filing a Return
- Tax Advisory Service
- Seller’s Permit Update and Maintenance



To make an appointment, visit [www.boe.ca.gov/sutax/appointment.htm](http://www.boe.ca.gov/sutax/appointment.htm).

**Virtual Seminars:** The BOE website ([www.boe.ca.gov](http://www.boe.ca.gov)) now features several online products that are a cost-effective, convenient way for taxpayers to learn about the BOE’s tax programs and how to comply with California tax laws. These products include virtual seminars, designed specifically to enhance the in-person attention taxpayers can get through sales and use tax classes offered in BOE offices and seminars offered throughout the state.

Chairwoman Yee notes, “Taxpayers can now avail themselves of information about BOE’s tax programs at their convenience without having to take precious time away during business hours to attend an in-person seminar or workshop.”

Under development is a total virtual one-stop-shop option for Small Business Fairs and Nonprofit Seminars, which will include links to presentations by the following seminar partners: Franchise Tax Board, Internal Revenue Service, Employment Development Department, US Small Business Administration, and other federal, state, and local agencies. This one-stop shop will offer contact information, presentations, videos, audio recordings, and more. The BOE will provide to its community partners, online educational and learning product training and facilitation guides on how to use the products as a convenient resource. In turn, the community partners will be able to assist their clients in using the BOE online products.

Virtual seminars are currently available for the following five areas:

- Basic Sales & Use Tax
- Nonprofit Organizations
- Small Business Fairs
- eFile
- Retail Sales of Cigarettes and Tobacco Products



## CONSUMER ALERT: FEDERAL BAN ON FLAVORED AND ROLL-YOUR-OWN CIGARETTES

The BOE has notified wholesalers and distributors that it is now illegal to sell flavored cigarettes or roll-your-own (RYO) under the federal US Food and Drug Administration (FDA) provision of the Family Smoking Prevention and Tobacco Control Act.

Under federal law, these products can no longer be manufactured, imported, or sold in the United States and could be seized by federal, state or local law enforcement authorities. Cigarettes and RYO products banned by the FDA have been and continue to be removed from the California Tobacco Directory by the California Attorney General (AG) and the California Department of Justice. It is illegal for distributors to affix a California tax stamp on packages of flavored cigarettes or pay the tax on RYO products unless the manufacturer and the brand family are listed in the California Tobacco Directory.



**What does the federal ban do?** Prohibits a cigarette or any of its component parts (including the tobacco, filter, or paper) from containing, as a constituent (including a smoke constituent) or additive, an artificial or natural flavor (other than tobacco or menthol) or an herb or spice, including strawberry, grape, orange, clove, cinnamon, pineapple, vanilla, coconut, licorice, cocoa, chocolate, cherry, or coffee, that is a characterizing flavor of the tobacco product or tobacco smoke.

For general information regarding the FDA's Tobacco Program and the ban on flavored cigarettes and RYO products, visit [www.fda.gov/TobaccoProducts/default.htm](http://www.fda.gov/TobaccoProducts/default.htm).

To access the product listing on the California Tobacco Directory, visit the AG's website at <http://ag.ca.gov/tobacco/directory.php>.

## CHAIRWOMAN YEE REACHING OUT TO PROFESSIONAL AND COMMUNITY ORGANIZATIONS



On October 2<sup>nd</sup>, Chairwoman Yee provided the keynote address at the luncheon of the San Mateo Chapter of California Women Lead. She spoke about the on-going challenges of the State Budget on local governments and communities, including the fiscal outlook for the next fiscal year, the BOE's tax assistance programs, use tax, and the importance of civic participation during these difficult times. "What an inspiration to be among some extraordinary women --- the movers and shakers of San Mateo County!" exclaimed Chairwoman Yee. "We are in good hands with committed leaders like these remarkable women."

Chairwoman Yee participated in the 2009 annual California Tax Policy Conference (CTPC) on November 13<sup>th</sup> and 14<sup>th</sup> in San Diego. Capping off the annual conference dinner, she joined Deputy State Controller Marcy Jo Mandel, Franchise Tax Board Executive Officer Selvi Stanislaus, and BOE Executive Officer Ramon Hirsig in the fireside chat session, "Up Close & Personal: An Evening with the BOE and FTB Chairs and Executive Officers." Chairwoman Yee addressed a variety of topics, including the State Budget challenges on tax administration agencies, California tax legislation, and the issuance of formal opinions by the Board of Equalization.



The following morning, Chairwoman Yee participated in a panel discussion, "Pie in the Sky or Devil in Disguise: What Would a Single Revenue Agency Look Like in California?" The panelists explored the implications of consolidating California's tax agencies, including assessment of their impacts on taxpayers. Of both sessions, Chairwoman Yee commented, "It is important for California tax officials to seek input from tax practitioners about how we may better serve taxpayers, from the education and outreach programs to ensure taxpayer compliance to the tax appeals process to ensure taxpayers are able to easily exercise their appeals rights."



On December 9<sup>th</sup>, Chairwoman Yee kicked off a panel discussion, "How to Create a Political Infrastructure," hosted by the Asian Pacific American Leadership Project (APALP). APALP is a non-partisan, non-profit organization that annually trains and prepares a select group of Asian Pacific Americans for the challenges of running for elected office. Chairwoman Yee discussed her background and her unique experience as a female Asian American elected official. When asked about her interpretation of "creating an infrastructure," she discussed the need to support and cultivate new leadership in an effort to engage and empower whole communities.

## SPREADING HOLIDAY CHEER

Chairwoman Yee and her staff spread some holiday cheer to those less fortunate by providing toys to children in need; clothes to families in need; and volunteer time and supplies, to paint the mural wall at the Tenderloin Child Care Center in San Francisco. The mural features the world, with children from different cultural backgrounds holding hands around it. "This is what the holiday season is all about --- dedicating time to serving those in need," Chairwoman Yee said.



On December 9<sup>th</sup> and December 10<sup>th</sup>, Chairwoman Yee visited the four District Offices in the First Equalization District to wish all BOE staff a happy holiday season. She thanked the District staff and administrators for their continued hard work and dedication to taxpayers and the BOE throughout this stressful and challenging year. Chairwoman Yee answered questions on the State Budget, tax agency consolidation proposals, and proposals affecting State employees. Afterwards, Chairwoman Yee and her staff served pie to celebrate the holidays. "This is our turn to serve you!" she exclaimed.



Culminating the holiday celebrations, Chairwoman Yee attended the San Francisco Women's Holiday Party, where she was presented with the 2009 Leader of the Year Award by the San Francisco Women's Political Committee. Upon receiving her award, she spoke about the accomplishments of women leaders, proclaimed 2010 as the next Year of the Woman in politics, and wished everyone a joyous holiday. Two days later, Chairwoman Yee was honored for her dedication to public service and her contributions to the advancement of women in society at the annual Traditional Christmas Party of the Democratic Women's Forum (DWF) in San Francisco. DWF is in its eighth decade serving as a citywide club. "What a wonderful way to celebrate the holidays --- to accept these awards and pay tribute to all the women who came before me and worked hard to pave the way for future women leaders to emerge," Chairwoman Yee reflected.



## GAS CONSUMPTION WATCH

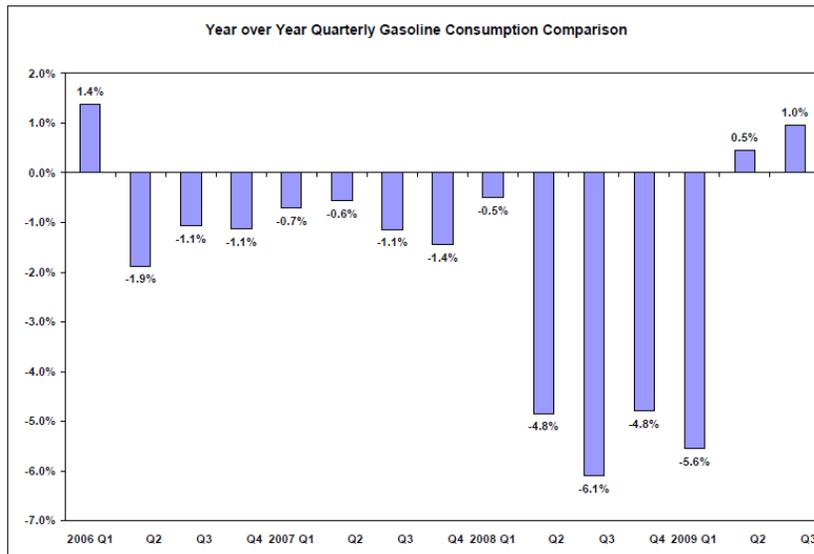
Chairwoman Yee released gasoline and diesel consumption figures for September and total figures for the third quarter of 2009 that indicate gas consumption increased for the second consecutive quarter since early 2006.

In September 2009, gasoline demand rose 0.05 percent when Californians used 1.219 billion gallons of gasoline compared to just under 1.219 billion gallons in September 2008. The average California gasoline price at the pump in September 2009 was \$3.17 per gallon, a 17.4 percent decrease from the \$3.84 per gallon in September 2008. In the third quarter of 2009, gasoline consumption increased one percent, when Californians used 3.772 billion gallons of gasoline, compared to 3.736 billion gallons the third quarter last year.

Gasoline sold in September generated approximately \$322 million in sales tax during that month, an estimated \$23 million less than generated last year. September sales and use tax revenues from gasoline would have been about \$59 million less had the state portion of the sales and use tax not increased by one percent on April 1, 2009.

Diesel fuel sold in California during September totaled 244 million gallons, a 3.9 percent decline from the 254 million gallons sold in September 2008. California diesel prices were \$2.84 per gallon in September 2009, down 30.6 percent from the average diesel price of \$4.09 per gallon from September 2008. Diesel consumption in California declined 10.6 percent in the third quarter of 2009, when Californians used a total of just over 654 million gallons of diesel compared to the third quarter of 2008 total of 732 million gallons. This decline is similar to those seen since early 2008.

“Diesel consumption generally follows economic activity and is especially closely related to construction and transportation of goods,” said Chairwoman Yee. “These two areas of the economy were particularly hard hit during the recession, and have not yet recovered.”



## GET INVOLVED!

**Census 2010: Be Californian! Be Counted!** National Census Day is April 1, 2010. The new interactive Census 2010 website offers California-specific Census 2010 information and resources for individuals, businesses, community organizations, nonprofit organizations, schools, and local and state government officials.

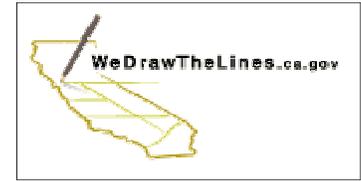
Highlights include customized outreach tools and the Census e-Center, a comprehensive online resource featuring, among other things, a link for locating a local Census office, Partnership Specialist, and when available in early 2010, Questionnaire Assistance Center.

California has a great deal at stake with obtaining an accurate Census count, such as proportionate allocations of federal funds for programs and the number of Congressional seats. Chairwoman Yee explains, “Our schools, our communities, our roads, our hospitals, and many other important services all depend on a complete count of California’s population. It is only through our combined efforts that we can reach the many diverse groups in California to be sure we are all counted.”

For more information, visit [www.californiacompletecount.org](http://www.californiacompletecount.org) today.



**California Redistricting Commission Needs Volunteers!** Following every decennial federal census, California and every other state must redraw the boundaries of its legislative and State Board of Equalization districts to reflect the new population data. These boundaries affect how people are represented in the California State Legislature and on the State Board of Equalization. Previously, these boundaries were drawn by the State Legislature. However, in November 2008, voters statewide enacted Proposition 11, the Voters FIRST Act, which shifted the responsibility of redrawing district lines to a new Citizens Redistricting Commission.



You can apply now to serve on this new Commission. The application process takes place in several phases, but you must submit an initial application online by February 12, 2010, to participate in the remaining phases. For more information about the application and selection process, visit [www.wedrawthelines.ca.gov](http://www.wedrawthelines.ca.gov).

## UPCOMING EVENTS

The following outreach and education events are being offered free of charge in the First Equalization District from January 2010 through March 2010. Please visit [www.boe.ca.gov/cgi-bin/tax\\_class.cgi](http://www.boe.ca.gov/cgi-bin/tax_class.cgi) to obtain detailed information about seminar and conference topics, times, and locations.

<b>January 13:</b>	Basic Sales and Use Tax Seminar in English (Santa Rosa)
<b>January 14:</b>	Basic Sales and Use Tax Seminar in Spanish (Santa Rosa)
<b>January 19:</b>	Basic Sales and Use Tax Seminar in English (Oakland)
<b>January 20:</b>	Basic Sales and Use Tax Seminar in English (Salinas)
<b>February 17:</b>	Basic Sales and Use Tax Seminar in English (San Jose)
<b>March 4:</b>	Basic Sales and Use Tax Seminar in English (San Francisco)
<b>March 10:</b>	Basic Sales and Use Tax Seminar in Chinese (San Jose)
<b>March 30:</b>	Basic Sales and Use Tax Seminar in English (San Jose)